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To: David Allen, NYISO

Paul Hibbard, Analysis Group

From: Matthew Schwall, Director of Market Policy & Regulatory Affairs

Date: October 16, 2017

Re: IPPNY Comments on Analysis Group Performance Assurance Report

Following the Analysis Group's ("AG") presentation of its draft report assessing wholesale market options to enhance resource performance in the NYISO markets at the September 28, 2017 ICAP Working Group meeting, the NYISO requested that Market Participants provide comments on AG's findings and identify potential next steps to address performance assurance.<sup>1</sup> While the NYISO has significantly revised its market rules and taken a number of steps to further reinforce reliability, AG's report identifies market changes currently underway that may, or may not, necessitate enhanced capacity, energy, and/or ancillary market designs to address possible reliability risks. Currently, there is no evidence that any failure to perform by capacity resources has led to adverse reliability outcomes in New York. However, IPPNY is generally supportive of NYISO initiatives to align unit performance with system needs by considering revisions to the existing market rules if a review demonstrates reliability needs.

As explained by the Analysis Group, the Draft Report "...attempt[s] to present a set of practical alternatives in the New York context, and provide high-level observations to support continued discussion among NYISO and stakeholders on *whether and, if so, how* to alter NYISO capacity, energy and/or ancillary service market designs to provide better incentives for NYISO

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<sup>1</sup> See Analysis Group, "Capacity Resource Performance in NYISO Markets – An Assessment of Wholesale Market Options – Draft" (dated September, 2017) (hereinafter, "Draft Report").

capacity market resource performance.”<sup>2</sup> Following the Polar Vortex conditions, the NYISO aggressively pursued reforms to the energy markets to address performance assurance concerns because the NYISO found enhancements to the energy market rules would provide the most benefit to New York consumers. Many market rule changes have been made over the past two years which have allowed the NYISO to more effectively address peak summer and winter conditions – a fact that was also acknowledged by the Analysis Group in its Draft Report.<sup>3</sup> The Polar Vortex conditions also prompted the NYISO to proactively take certain ministerial steps to support the system during scarcity and shortage conditions, *e.g.*, mandated submission of generator information logs and improved communication with the gas infrastructure. Unlike the “Pay-for-Performance” mechanisms adopted by ISO-NE and PJM, which have been and continue to be the subject of controversy, the NYISO’s market rule revisions and administrative mechanisms appear to be working as intended.<sup>4</sup>

Nevertheless, the Draft Report repeatedly emphasized that the markets, both in New York and in the adjoining regions, are in a state of flux. It will be difficult – if not wholly unrealistic – to determine the exact scope and nature of the market rule revisions that will be required to accommodate future system needs. Therefore, if the NYISO determines, after demonstrating a reliability need, that market enhancements are needed to send stronger price signals to resources for availability during stressed periods, it would be appropriate to focus on the energy and ancillary services market to ensure generators are appropriately compensated for maintaining strong performance levels during stressed system conditions. If the NYISO determines that incentives are better provided through enhancements to the capacity market, such enhancements could include considerations such as: a requirement that resources be committed to the NYISO for an entire capability period; revising the payment rules to increase the value of capacity during peak months while decreasing it during shoulder months; and/or revising the EFORd calculation to put more emphasis on outages during peak winter and summer months.

IPPNY thanks the NYISO and Analysis Group for this opportunity to comment on the draft Report.

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<sup>2</sup> *Id.* at 11 (emphasis added).

<sup>3</sup> *Id.* at 33-34.

<sup>4</sup> In any event, this mechanism in neighboring regions is coupled with a Forward Capacity Market.